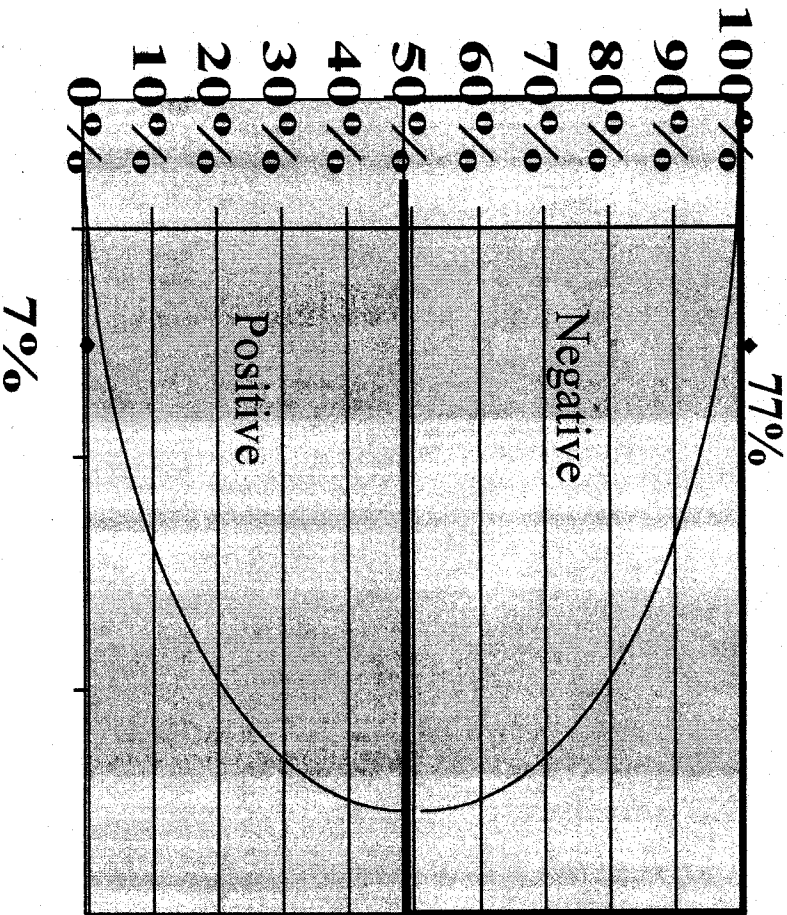


REP. TOM MCGILLVRAY HB 564

Laffer Curve

(Incomes over \$300,00)

| Tax Year | Rate | Revenue |
|----------|------|------------|
| 1916 | 7 % | 81,404,194 |
| 1921 | 77 % | 84,797,344 |



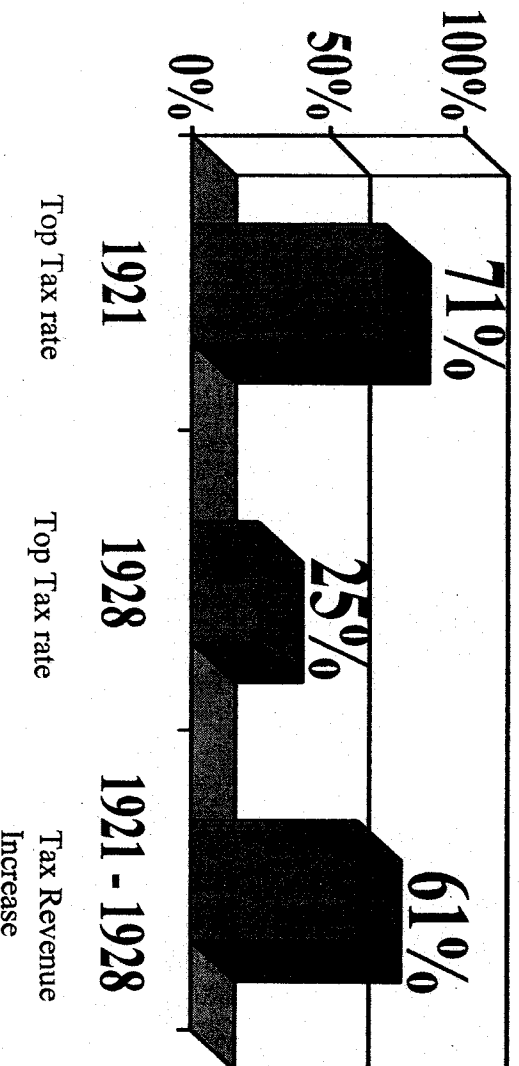
The Laffer Curve: In the 1920s, the Treasury discovered that a 77% Tax rate produced about the same amount of revenue as a 7% tax rate.

Fig. 1

Source: For Good and Evil - The Impact of Taxes on the Course of Civilization - Charles Adams.

Historical Income Tax Cuts and Result in Tax Revenue

Coolidge Tax Cuts 1921-1928

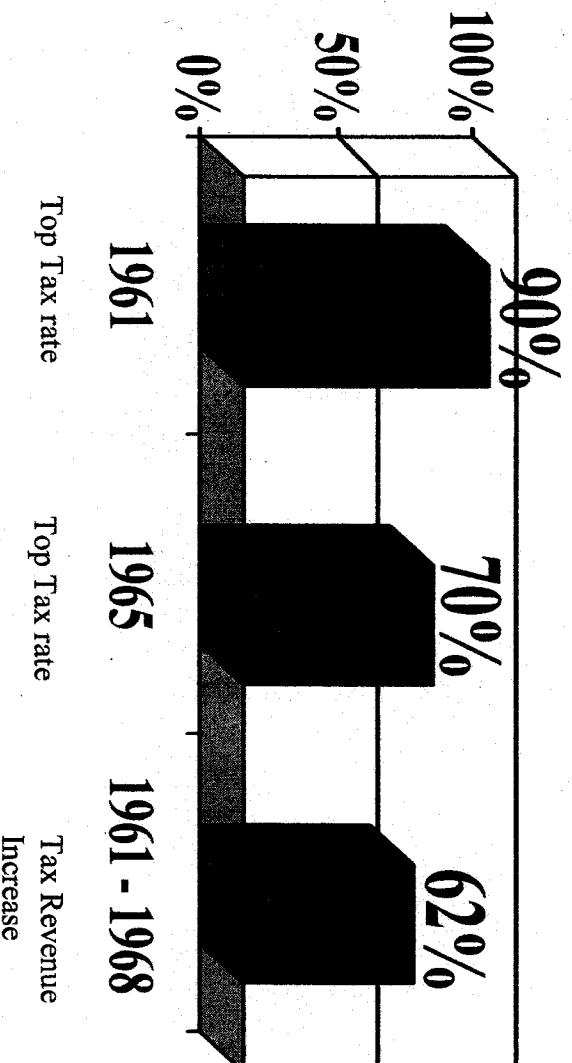


Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 2

Historical Income Tax Cuts and Result in Tax Revenue

Kennedy Tax Cuts 1961-1968

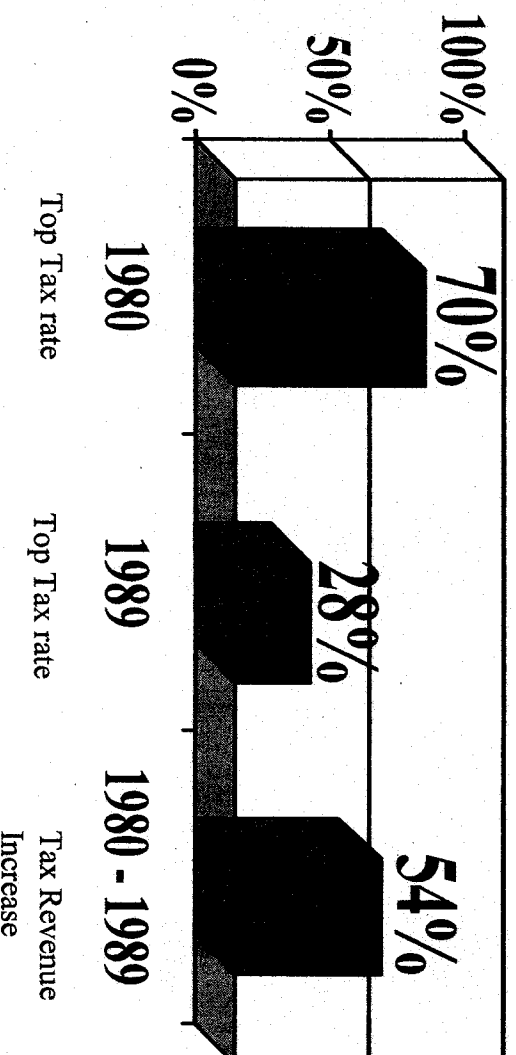


Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 3

Historical Income Tax Cuts and Result in Tax Revenue

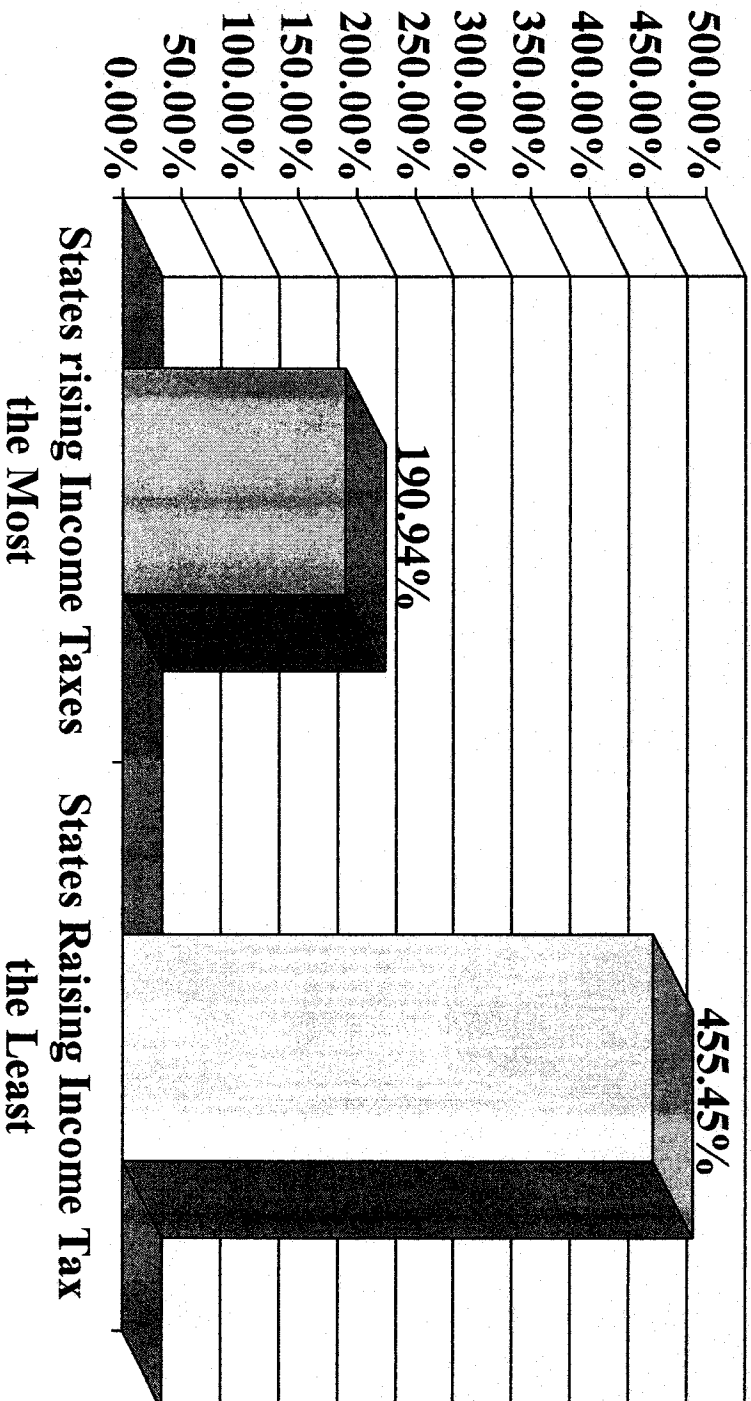
Regan Tax Cuts 1980-1989



Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 4

Real Total Income Growth



Economic performance:
10 states raising income taxes the most vs. states raising income taxes the least.
1957 – 1997.

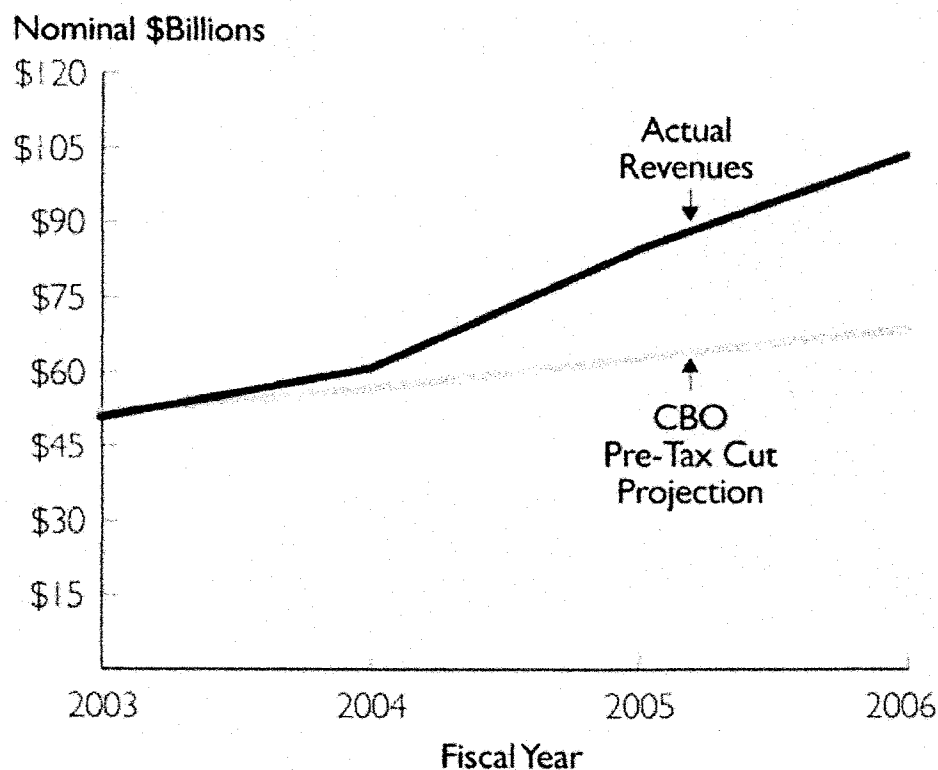
Fig. 6

Source: US Department of Commerce; Dr. Richard Vedder, Taxes and Economic Growth, September 2001

Chart 2

B 2001

Capital Gains Tax Revenues Doubled Following the 2003 Tax Cut

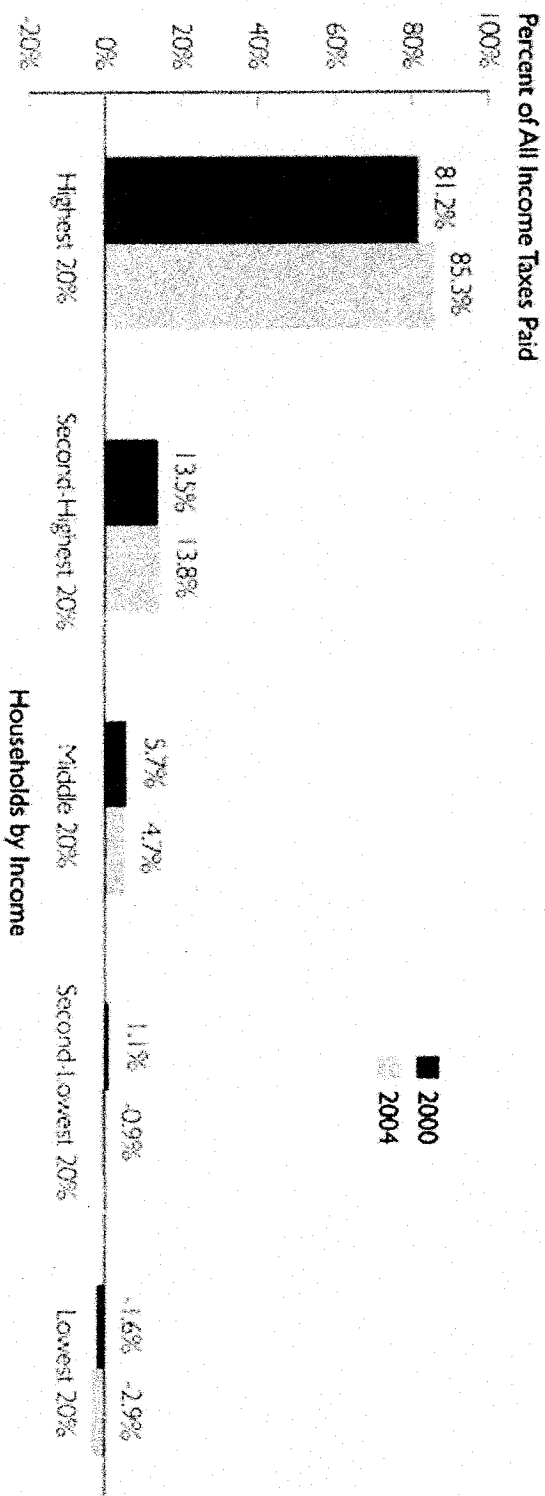


Source: Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2004," March 2003, for early projections. For actual figures, see Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008-2017," January 2007.

Chart 6

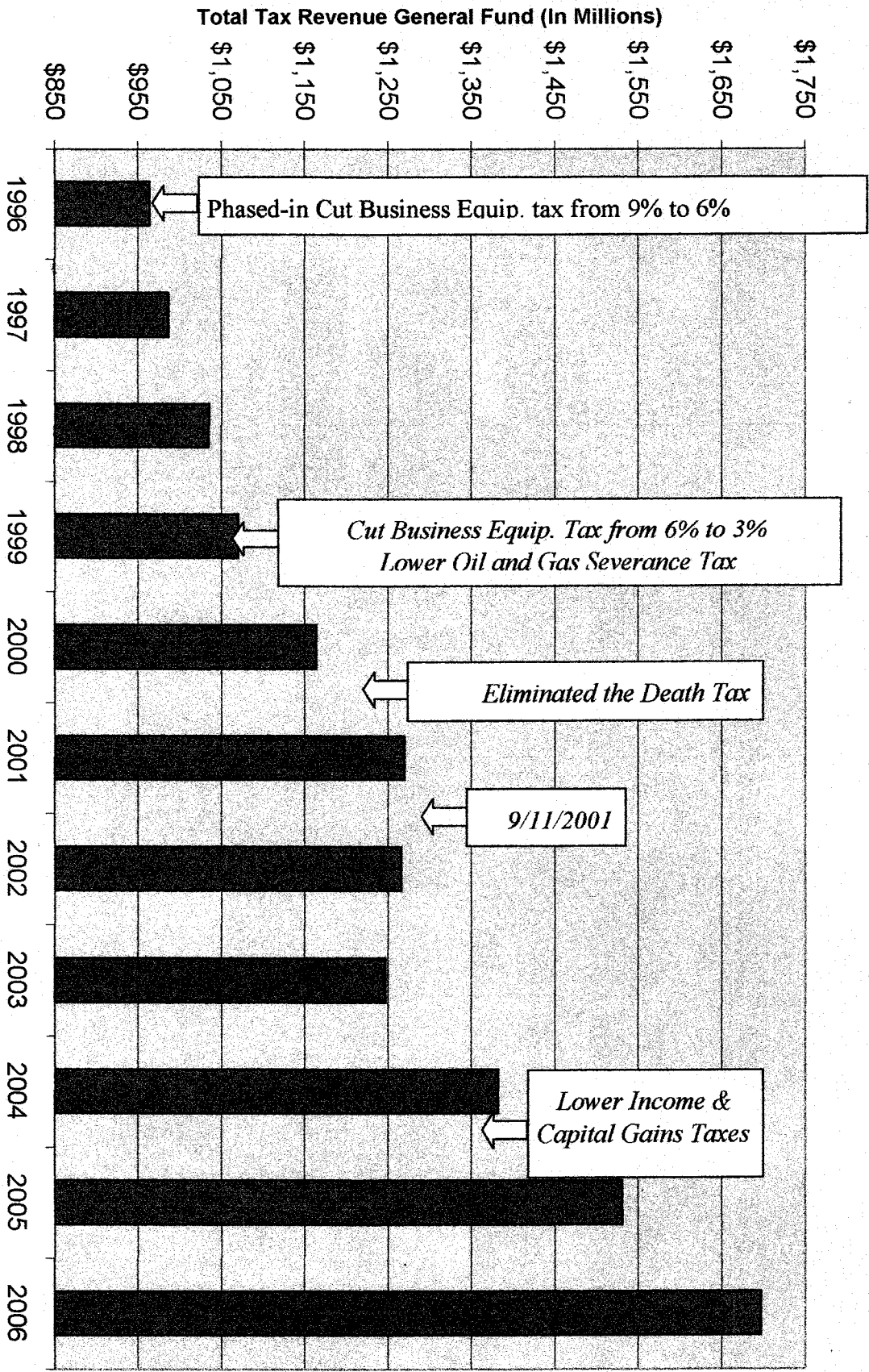
B 2001

The Bush Tax Cuts Shifted the Tax Burden Further Toward the Rich



Source: Congressional Budget Office, "Historical Effective Federal Tax Rates 1979 to 2004," December 2006.

DO TAX CUTS INCREASE TAX REVENUES?....YOU DECIDE



Comparison of Income and Tax Paid by Decile Group

The following table shows Montana adjusted gross income and income tax liability by decile group for 2004 and 2005. Each decile group is 10% of the population, sorted by income. Group 1 is the 10% with the lowest incomes, while group 10 is the 10% with the highest incomes. For each decile group, the table shows the income range and the number of taxpayers; total adjusted gross income and percent of the population total; total tax liability, percent of the population total, and average tax per taxpayer; and the average effective tax rate, which is total tax liability divided by total income.

The progressive nature of Montana's income tax can be seen from the fact that higher deciles have higher average effective tax rates. The changes from 2004 to 2005 reflect both income growth and the changes in law from SB407. For example, the highest income group received 41.1% of income in 2004 and 42.9% in 2005 but paid 58.1% of the tax both years with an average effective tax rate of 5.84% in 2004 and 5.39% in 2005.

Average Effective Tax Rate by Decile Group
Full Year Resident Taxpayers - 2004 and 2005

| Decile Group | Adjusted Gross Income Range | Number of Taxpayers | Adjusted Gross Income | | Tax Liability | | Average Per Taxpayer | Effective Tax Rate |
|--------------|-----------------------------|---------------------|-----------------------|------------|---------------|------------|----------------------|--------------------|
| | | | \$ Million | % of Total | \$ Million | % of Total | | |
| 2004 | | | | | | | | |
| 1 | < \$3,167 | 49,445 | -\$262.2 | -1.7% | \$0.01 | 0.0% | \$0.22 | 0.00% |
| 2 | \$3,167 - \$6,984 | 49,446 | \$250.6 | 1.7% | \$1.28 | 0.2% | \$25.82 | 0.51% |
| 3 | \$6,985 - \$11,131 | 49,445 | \$446.0 | 3.0% | \$4.82 | 0.8% | \$97.48 | 1.08% |
| 4 | \$11,132 - \$15,580 | 49,446 | \$659.9 | 4.4% | \$10.22 | 1.6% | \$206.70 | 1.55% |
| 5 | \$15,581 - \$20,275 | 49,445 | \$884.5 | 5.9% | \$17.88 | 2.9% | \$361.60 | 2.02% |
| 6 | \$20,276 - \$25,818 | 49,446 | \$1,134.9 | 7.6% | \$28.65 | 4.6% | \$579.49 | 2.52% |
| 7 | \$25,219 - \$32,992 | 49,445 | \$1,447.0 | 9.6% | \$42.90 | 6.9% | \$867.55 | 2.96% |
| 8 | \$32,993 - \$42,154 | 49,446 | \$1,844.7 | 12.3% | \$61.49 | 9.9% | \$1,243.56 | 3.33% |
| 9 | \$42,155 - \$58,349 | 49,445 | \$2,429.0 | 16.2% | \$92.78 | 14.9% | \$1,876.48 | 3.82% |
| 10 | \$58,350 and over | 49,446 | \$6,176.7 | 41.1 % | \$360.89 | 58.1 % | \$7,298.65 | 5.84% |
| Total | | 494,455 | \$15,011.2 | 100.0% | \$620.92 | 100.0% | \$1,255.76 | 4.14% |
| 2005 | | | | | | | | |
| 1 | < \$3,514 | 49,666 | -\$242.2 | -1.4% | \$0.01 | 0.0% | \$0.11 | 0.00% |
| 2 | \$3,515 - \$7,630 | 49,667 | \$276.8 | 1.7% | \$0.86 | 0.1% | \$17.33 | 0.31% |
| 3 | \$7,631 - \$12,023 | 49,667 | \$487.1 | 2.9% | \$3.79 | 0.6% | \$76.39 | 0.78% |
| 4 | \$12,024 - \$16,688 | 49,667 | \$712.8 | 4.3% | \$9.46 | 1.4% | \$190.53 | 1.33% |
| 5 | \$16,689 - \$21,653 | 49,667 | \$949.4 | 5.7% | \$18.47 | 2.8% | \$371.84 | 1.95% |
| 6 | \$21,654 - \$27,683 | 49,666 | \$1,219.0 | 7.3% | \$31.61 | 4.7% | \$636.43 | 2.59% |
| 7 | \$27,684 - \$35,222 | 49,667 | \$1,557.6 | 9.3% | \$47.31 | 7.1% | \$952.56 | 3.04% |
| 8 | \$35,223 - \$45,106 | 49,667 | \$1,980.6 | 11.8% | \$66.99 | 10.0% | \$1,348.77 | 3.38% |
| 9 | \$45,107 - \$63,379 | 49,667 | \$2,629.6 | 15.7% | \$101.02 | 15.1% | \$2,033.89 | 3.84% |
| 10 | \$63,380 and over | 49,667 | \$7,200.1 | 42.9% | \$388.33 | 58.1 % | \$7,818.70 | 5.39% |
| Total | | 496,668 | \$16,770.7 | 100.0% | \$667.85 | 100.0% | \$1,344.66 | 3.98% |